

MEMORANDUM



TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

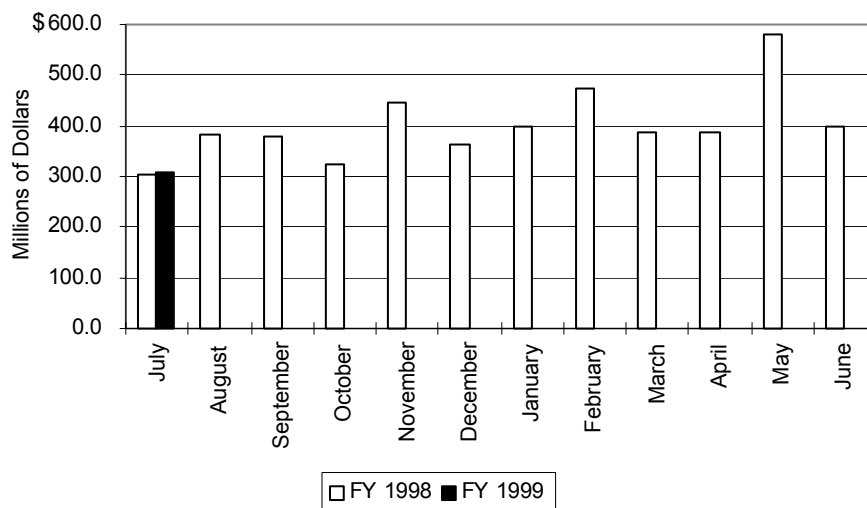
DATE: August 3, 1998

General Fund Receipts Through July 31, 1998

The attached spreadsheet represents total FY 1999 General Fund receipts, with comparable figures for FY 1998. These can be compared to the latest FY 1999 estimate (\$4.933 billion) set by the Revenue Estimating Conference (REC) on April 10, 1998. The estimate represents an increase of \$101.8 million (2.1%) compared to FY 1998. Receipts for FY 1998 were 3.9% and did not meet the REC estimate of 4.3%.

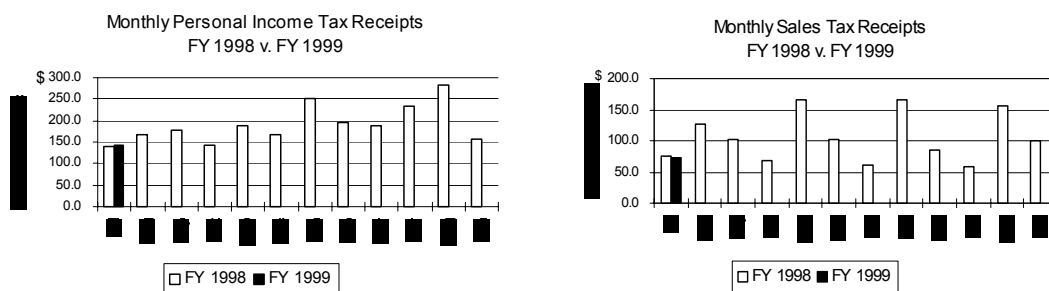
The FY 1999 REC estimate does not include adjustments for the bills passing the 1998 General Assembly. The net effect of these bills is a reduction in FY 1999 General Fund revenues of approximately \$139.2 million. The largest of these is the Omnibus Tax Bill (\$85.6 million) which increased the income tax personal exemption, expanded the State capital gains exclusion, raised the pension income exclusion, expanded the tuition tax credit, provided a sales tax exemption for hospitals, and increased the Elderly and Disabled Tax Credit. Although all law changes for FY 1999 have been incorporated in the General Fund balance sheet, they will not be included in the REC estimate until the next meeting.

Monthly General Fund Receipts - FY 1998 v. FY 1999



FY 1999 Compared to FY 1998

Fiscal Year 1999 revenue growth increased by \$3.1 million (1.0%) compared to FY 1998. This is below the current REC estimate of 2.1% million for FY 1999.



Gross personal income tax revenues received in July were \$2.6 million (1.8%) greater than July 1998. Although FY 1998 withholding payments exhibited strong growth, the effect of the 10.0% income tax cut can clearly be seen in FY 1999 withholding tax receipts. The July growth rate was negative, with withholding payments decreasing by 5.1% compared to July 1997. This trend is expected to continue through the first seven months of FY 1999, until the full year's effect of the 10.0% income tax cut is experienced.

Estimate payments showed higher than expected growth in July, posting a gain of \$15.3 million (62.7%) compared to July 1997. Approximately \$10.0 million of the July gain was expected because of a delay in processing FY 1998 receipts received just prior to the close of FY 1998. This amount will be adjusted in the accruals line in the General Fund balance sheet. Gains in estimate payments can be attributed to both the strong year in the stock market and the federal capital gains tax rate change.

The REC FY 1999 income tax estimate of \$2.349 billion represents a projected increase of 2.6% compared to FY 1998. Actual FY 1998 income tax revenues were \$2.288 billion, which is \$6.5 million below the REC estimate.

Sales tax receipts in July fell below last year's level by \$3.8 million (5.0%). All of the monthly loss is due to the change in the method of local option tax payments. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. The REC estimate for FY 1998 sales tax receipts is \$1.331 billion, which represents an increase of 4.6% compared to FY 1998.

Corporate income tax receipts in July were \$556,000 (3.9%) lower than July 1998. On a dollar basis, estimate payments were the primary cause of negative growth for the month. Estimate payments received in July were \$900,000 (7.7%) less than July 1998.

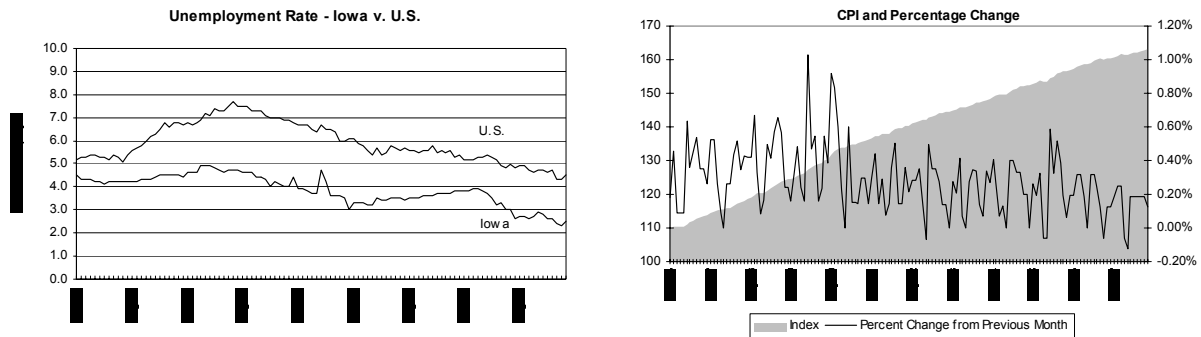
The April REC projected FY 1999 corporate income tax receipts would total \$310.0 million, an increase of \$19.3 million (6.6%) compared to FY 1998.

Racing and gaming receipts in July were \$2.6 million (55.9%) greater than July 1998. All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund because there is little doubt that receipts will exceed the \$60.0 million threshold. The April REC estimated that \$84.9 million from this source would be deposited to the Infrastructure Account in FY 1999.

Status of the Economy

The seasonally adjusted percent unemployed for the State increased from the 2.3% rate in May to 2.5% in June. The unemployment rate a year ago was 3.0%. Iowa's total June employment registered 1,534,500, down from May's level of 1,545,300. The number of unemployed persons in Iowa stood at 39,800 in June, which is up from the record low of 36,700 in May. The U.S. unemployment rate increased in June to 4.5% from May's level of 4.3%.

Consumer prices in June increased 0.1%. The Consumer Price Index (CPI-U) through June 1998 was 163.0 (1983=100), which is 1.7% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through June 1998.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

GENERAL FUND RECEIPTS - FY 1999 vs. FY 1998						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1998, through July 31, 1998, in millions of dollars						FY 98 Actual Compared to FY 99 REC Estimate			
	FY 1998	FY 1999	Year to Date		July	Actual	Estimate		
				% CHANGE	% CHANGE	FY 1998	FY 1999	% CHANGE	
Personal Income Tax	\$ 140.6	143.2		1.8%	1.8%	\$ 2,288.4	\$ 2,349.0	2.6%	
Sales Tax	76.2	72.3		-5.1%	-5.1%	1,271.8	1,330.8	4.6%	
Use Tax	24.4	26.8		9.8%	9.8%	243.0	262.0	7.8%	
Corporate Income Tax	14.1	13.5		-4.3%	-4.3%	290.7	310.0	6.6%	
Inheritance Tax	9.7	8.6		-11.3%	-11.3%	109.8	66.6	-39.3%	
Insurance Premium Tax	0.0	0.0		n/m	n/m	108.9	110.0	1.0%	
Cigarette Tax	9.1	7.9		-13.2%	-13.2%	94.6	97.0	2.5%	
Tobacco Tax	0.6	0.5		-16.7%	-16.7%	6.1	6.6	8.2%	
Beer Tax	1.2	1.2		0.0%	0.0%	12.7	12.7	0.0%	
Franchise Tax	3.3	2.7		-18.2%	-18.2%	36.4	38.5	5.8%	
Miscellaneous Tax	1.3	1.2		-7.7%	-7.7%	1.3	1.3	0.0%	
Total Special Taxes	\$ 280.5	\$ 277.9		-0.9%	-0.9%	\$ 4,463.7	\$ 4,584.5	2.7%	
Institutional Payments	4.2	4.7		11.9%	11.9%	70.2	69.2	-1.4%	
Liquor Transfers:									
Profits	1.5	1.5		0.0%	0.0%	31.0	30.0	-3.2%	
7% Gross Revenue	0.8	0.8		0.0%	0.0%	9.0	9.0	0.0%	
Interest	1.1	1.3		18.2%	18.2%	30.6	23.0	-24.8%	
Fees	6.1	6.1		0.0%	0.0%	65.4	64.5	-1.4%	
Judicial Revenue	5.1	5.3		3.9%	3.9%	42.9	43.9	2.2%	
Miscellaneous Receipts	2.0	4.1		105.0%	105.0%	58.1	48.6	-16.4%	
Racing and Gaming Receipts	4.7	7.4		57.4%	57.4%	60.0	60.0	0.0%	
TOTAL RECEIPTS	\$ 306.0	\$ 309.1		1.0%	1.0%	\$ 4,830.9	\$ 4,932.7	2.1%	